


MEMORANDUM

TO: Docket Control

FROM: Elijah O. Abinah 
Director
Utilities Division

DATE: March 13, 2023

RE: IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., AN ARIZONA CORPORATION: (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO THE RIO VERDE FOOTHILLS COMMUNITY. (DOCKET NO. W-01303A-22-0264)

Attached is the Staff Report for the Application of EPCOR Water Arizona, Inc., for approval of a proposed standpipe water tariff and establishment of a Certificate of Convenience and Necessity for Standpipe Service only. Staff recommends approval of this application with conditions.

EOA:VW:jn/KMU

Originator: Vicki Wallace

Attachments

On this 13th day of March, 2023, the foregoing document was filed with Docket Control as a Staff Report, and copies of the foregoing were mailed on behalf of the Utilities Division to the following who have not consented to email service. On this date or as soon as possible thereafter, the Commission's eDocket program will automatically email a link to the foregoing to the following who have consented to email service.

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**EPCOR WATER ARIZONA, INC.
DOCKET NO. W-01303A-22-0264**

**IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., AN
ARIZONA CORPORATION: (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE
WATER TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF
CONVENIENCE AND NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO
THE RIO VERDE FOOTHILLS COMMUNITY.**

MARCH 13, 2023

STAFF ACKNOWLEDGMENT

The Staff Report for EPCOR Water Arizona, Inc. (Docket No. WS-01303A-22-0264) was the responsibility of the Staff members listed below. Vicki Wallace was responsible for the overall review and analysis of the Company's application and preparation of the Division's Staff Report. Abdul Abdulrahim was responsible for the engineering and technical analysis. Luis Carranza was responsible for the financial and accounting analysis. Lori Miller, Geographic Information Specialist, was responsible for geographic information and mapping from information available.

**EXECUTIVE SUMMARY
OF
VICKI WALLACE
EPCOR WATER ARIZONA, INC.
DOCKET NO. W-01303A-22-0264**

On October 13, 2022, EPCOR Water Arizona, Inc. (“EPCOR” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of a limited Certificate of Convenience and Necessity (“CC&N”) and tariff to provide standpipe water service to the Rio Verde Foothills Community (“RVFC”).

The RVFC is roughly located north of McDowell Mountain Regional Park, between North 136th Street and North 172nd Street, an unincorporated area of Maricopa County, northwest of Fountain Hills. Currently, this area has no service provider for water. The RVFC was developed as a “dry lot” community which the Arizona Department of Environmental Quality (“ADEQ”) defines as a development or subdivision without a central water distribution system. EPCOR filed this application to indicate its willingness to assist in what has been identified as an emergency situation for RVFC residents who have lost the ability to utilize hauled water from a standpipe provided by the City of Scottsdale (“Scottsdale”) for residential purposes.

In August of 2021, the Bureau of Reclamation declared the first Tier 1 shortage on the Colorado River System, effective for 2022. In response, Scottsdale activated Stage One of its Drought Management Plan which essentially shuts down Scottsdale’s commercial and residential fill stations or restricts water that is not being supplied or hauled directly to a Scottsdale resident or business. In October 2021, the RVFC was notified that starting January 1, 2023, Scottsdale would no longer allow non-city residents to utilize the Scottsdale standpipe which is the primary standpipe available for RVFC residents to use for personal use.

As a result, the ACC opened an inquiry docket (Docket No. W-00000A-22-0194) in July of 2022, seeking input from the RVFC on possible options for providing water service to the RVFC. On August 16, 2022, the Utilities Division docketed a letter that was sent to all regulated Class A water utilities and other interested water providers/entities advising of the situation and seeking input. EPCOR subsequently filed the current application seeking a limited CC&N to address an emergency situation by providing standpipe service to the RVFC area under certain conditions.

EPCOR indicated that it believed the Company was in a position to pursue a solution for the RVFC residents in the longer term, and to that end, intends to explore several options, including potentially acquiring or leasing property within, contiguous, or in close proximity to Rio Verde Utilities Inc.’s (“Rio Verde Utilities”) water district service territory.

EPCOR proposes that the rates to be charged for the standpipe be established at \$20.00 per 1,000 gallons. The Company further proposes that the RVFC standpipe be consolidated with EPCOR’s Sonoran Water District, and that the proposed rate be subject to true-up after the final costs are known or consolidation occurs.

Although the Company was unable to provide cost estimates and final infrastructure and water source information, Staff recognizes the unique circumstances of this case. The Company indicated that siting and design of the facilities will be undertaken upon Commission approval of a standpipe CC&N, because EPCOR cannot invest substantial resources in siting and design until it has certainty that it has authority to provide the service requested. Therefore, Staff finds the requested CC&N for standpipe service is in the public interest, and EPCOR is a fit and proper utility company to provide that service.

CONCLUSIONS

Staff makes the following conclusions:

1. EPCOR has a significant history of effectively operating utilities in Arizona. Staff believes that EPCOR has the financial, technical, and managerial ability to provide the proposed standpipe service.
2. Adequate information does not currently exist for Staff to recommend a January 1, 2024, cutoff date, and therefore, Staff concludes that EPCOR should provide standpipe service to all customers in the CC&N area identified in Staff's Engineering Map, Exhibit 1, regardless of when their homes were constructed.
3. Once EPCOR has identified a source of water supply and facilities and can show an inability to serve a specific set of potential RVFC standpipe customers based on that data, EPCOR may apply, in this docket, for any prescribed limitations at that time.
4. Although Staff is unable to determine the reasonableness of the proposed \$20.00 per 1,000 gallons rate at this time, Staff believes EPCOR's proposed true-up provision provides the Company and the RVFC the opportunity to resolve any potential under- or over-recovery of actual cost of service. Therefore, Staff is not opposed to the Commission authorizing the Company's proposed standpipe rate of \$20.00 per 1,000 gallons and recommends a cost-of-service analysis be conducted once actual costs of installing and operating the standpipe become known and measurable, for true-up of over- or under-recovery of costs.
5. Staff does not recommend consolidation of the RVFC standpipe service with the Sonoran Water District outside the context of a rate case.
6. Staff does not have adequate information to make a determination as to the reasonableness of the project costs or construction timelines.
7. Costs identified are true estimates with little to no information beyond generic knowledge regarding water facility construction costs.

RECOMMENDATIONS

Although the information to make a conclusive determination on infrastructure, costs, etc., is not currently available, Staff recognizes the emergency nature and urgency of this application. Additionally, Staff is not aware of any other company or party that has proposed a solution to the ACC to provide water service to the RVFC. Staff therefore recommends that the CC&N be approved for standpipe service to the full CC&N area described in Staff's Engineering Map, Exhibit 1, with the following conditions:

1. EPCOR be required to charge the proposed rate of \$20.00 per \$1,000 gallons and file the revised terms and conditions of service as recommended in this Report.
2. EPCOR be required to provide the estimated revenue and expenses for the first five years, following approval of the application, no later than 18 months after the Decision in this matter.
3. EPCOR be required to provide the estimated value of the Company's utility plant in service for the first five years following approval of the application no later than 18 months after a Decision in this matter.
4. EPCOR conduct a cost-of-service analysis once actual costs of installing and operating the standpipe become known and measurable, for true-up of over- or under-recovery of costs.
5. EPCOR file evidence of receipt of the required county/city franchise agreement, as a compliance item in this docket, within 12 months of the Decision in this docket.
6. Staff recommends that consolidation of the standpipe CC&N with the Sonoran Water District be denied, and that the request be made within the context of the next Sonoran Water District rate case.
7. EPCOR file a complete description of the facilities constructed, including an engineering report with specifications in sufficient detail to describe the water system and the principal components of the water system (i.e., source, storage, etc.) and verification that the requirements of the Commission and the ADEQ are met within 12 months of a Decision in this matter.
8. EPCOR file the estimated total construction cost of the proposed off-site and on-site facilities, including documentation to support the estimates, and an explanation of how the construction will be financed within 12 months of a Decision in this matter.
9. EPCOR file an Approval to Construct for the proposed facilities that will be installed within 18 months of the Decision in this matter.

10. EPCOR file a copy of a Physical Availability Determination, Analysis of Adequate Water Supply, or Analysis of Assured Water Supply issued by the Arizona Department of Water Resources ("ADWR") within 12 months of a Decision in this matter.
11. Once information becomes available regarding a source of water supply and facilities for the RVFC, and actual figures of demand are known, EPCOR may file for reconsideration of any cut-off date it believes is justified in this docket.
12. Staff further recommends that EPCOR explore the possibility of providing traditional water distribution service in the future should the need be established, and facilities and water sources are available to support such an endeavor.
13. Staff further recommends that the Commission's Decision granting this CC&N to EPCOR be considered null and void, after due process, should EPCOR fail to meet Condition Nos. 2, 3, 5, 7, 8, 9, and 10 within the timeframes specified or any other condition listed above.

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INTRODUCTION

On October 13, 2022, EPCOR Water Arizona, Inc. (“EPCOR” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of a limited Certificate of Convenience and Necessity (“CC&N”) and tariff to provide standpipe water service to the Rio Verde Foothills Community (“RVFC”).

The RVFC is roughly located north of McDowell Mountain Regional Park, between North 136th Street and North 172nd Street, an unincorporated area of Maricopa County, northwest of Fountain Hills. Currently, this area has no service provider for water. The RVFC was developed as a “dry lot” community which the Arizona Department of Environmental Quality (“ADEQ”) defines as a development or subdivision without a central water distribution system. EPCOR filed this application to indicate its willingness to assist in what has been identified as an emergency situation for RVFC residents who have lost the ability to utilize hauled water from a standpipe provided by the City of Scottsdale (“Scottsdale”) for residential purposes.

Staff’s Engineering Map, Exhibit 1, depicts the area described as the Rio Verde Foothills. Staff’s Engineering Map was prepared utilizing the general map provided by EPCOR as well as plotting current property owners’ lots in the Rio Verde Foothills area.

The existing CC&N rules found in Arizona Administrative Code (“A.A.C.”) R14-2-402(B)(5) specifically detail the information necessary for determining sufficiency for a CC&N application. Given the unique circumstances surrounding water service to the residents of RVFC, EPCOR filed a request to waive certain sufficiency requirements contained in A.A.C. R14-2-402(B)(5). On November 21, 2022, the Commission issued Decision No. 78771, which approved a waiver of certain sufficiency requirements contained in A.A.C. R14-2-402(B)(5). On November 14, 2022, Staff filed its Sufficiency Letter indicating that the application had met the applicable sufficiency requirements of A.A.C. R14-2-402(B)(5) as modified by Decision No. 78771.

BACKGROUND

EPCOR is a Class “A” for-profit Arizona public service corporation and is in good standing with the ACC’s Corporations Division. EPCOR is the largest private water provider in Arizona and delivers water and wastewater service to more than 650,000 people including service to municipalities and unincorporated areas of Maricopa, Mohave, and Pinal Counties. EPCOR’s current water rates were approved in Decision No. 78439 issued February 1, 2022, and Decision No. 78546, issued April 28, 2022. EPCOR is a wholly owned subsidiary of EPCOR USA, Inc. Both the water and wastewater utilities have been determined by the ACC to be fit and proper entities to provide such services. EPCOR filed this application to indicate its willingness to assist in what has been identified as an emergency situation for RVFC residents who have lost their ability to utilize hauled water from a standpipe provided by Scottsdale for residential purposes.

In August of 2021, the Bureau of Reclamation declared the first Tier 1 shortage on the Colorado River System, effective for 2022. In response, Scottsdale activated Stage One of its

Drought Management Plan in the same month which essentially shuts down Scottsdale's commercial and residential fill stations or restricts water that is not being supplied or hauled directly to a Scottsdale resident or business. In October 2021, the RVFC was notified that starting January 1, 2023, Scottsdale would no longer allow non-city residents to utilize the Scottsdale standpipe which is the primary standpipe available for RVFC residents to use for personal use.

As a result, the ACC opened an inquiry docket (Docket No. W-00000A-22-0194) in July of 2022, seeking input from the RVFC on possible options for providing water service to the RVFC once water hauling services were terminated at the end of 2022. On August 16, 2022, the Utilities Division docketed a letter that was sent to all regulated Class A water utilities and other interested water providers/entities advising of the situation and seeking input. EPCOR subsequently filed the current application seeking a limited CC&N to address an emergency situation by providing standpipe service to the RVFC area under certain conditions.

EPCOR indicated that it believed the Company was in a position to pursue a solution for the RVFC residents in the longer term, and to that end, intends to explore several options, including potentially acquiring or leasing property within, contiguous, or in close proximity to Rio Verde Utilities Inc.'s ("Rio Verde Utilities") water district service territory. EPCOR may need to construct separate facilities (including a well, storage tank, system control and data acquisition, possibly arsenic treatment facilities, and the station itself) that would be accessible to water haulers who would then haul water to residents in the RVFC area, and for those particular residents with hauling equipment.

EPCOR further requested, as part of this application, that the ACC approve future consolidation of standpipe service with EPCOR's Sonoran Water District or other consolidated district at the conclusion of that entity's next rate case. In addition, EPCOR requested that the ACC order, as a part of this docket, the performance of a cost-of-service analysis to ensure the opportunity for EPCOR to recoup its investment, and prevent under or over-recovery, similar to what was requested and approved for the Desert Hills and New River Communities in Docket No. W-01303A-17-0326.

Other Relevant Background Information

In anticipation of Scottsdale's standpipe restriction, some residents of the RVFC attempted to form a Domestic Water Improvement District ("DWID") to secure an alternative water supply. The Maricopa County Board of Supervisors ("Board") voted against the formation of the DWID on August 31, 2022. On September 20, 2022, two homeowners of the DWID appealed the Board's vote not to create a DWID to serve the RVFC with the Maricopa County Superior Court ("Court"). Other pleadings were filed in this docket and the Court held oral arguments on February 8, 2023. The Court subsequently took the matter under advisement.

In EPCOR's Response to Motions, filed in the Docket on January 4, 2023, EPCOR indicated that the outcome of the lawsuit likely would not affect the Company's application because even if the Court reverses the Board's decision, the outcome of the DWID is uncertain.¹

In response to Staff's inquiry to the DWID on its application to the Board, the DWID provided Staff with detailed cost information of a complete standpipe water system to provide water service to the RVFC. Staff has presented that preliminary information in Table 2 of Staff's Engineering Report to help inform relevant parties of the potential costs associated with delivering standpipe water service to the RVFC.

PROPOSED STANDPIPE SERVICE AND PROPOSED OPTIONS

EPCOR proposes to establish a certificated service territory to provide standpipe water service only to the unincorporated RVFC area for all houses built no later than January 1, 2024, as described in the following options. The options EPCOR has proposed fall along a continuum of cost effectiveness, from least expensive to most expensive. It is important to note that the first two options can only occur with agreement from Scottsdale. Upon filing the application, EPCOR was waiting for direction from Scottsdale on whether the City would negotiate an agreement with EPCOR.

As of filing this report, it is Staff's understanding that Scottsdale has not offered to enter into any agreements with EPCOR for use of Scottsdale's standpipe or system. There has been a proposal made by Scottsdale, to Maricopa County, to provide water to the RVFC area through an intergovernmental agreement, but the proposal was rejected by Maricopa County Supervisors on March 3, 2023.

Option 1 – Utilization of Scottsdale's Existing System and Standpipe

The first Scottsdale option would involve EPCOR offering standpipe service using Scottsdale's existing standpipe. Under this option, EPCOR would bring new water to Scottsdale. Scottsdale would treat that water and wheel it through its system to the standpipe. EPCOR customers (through water haulers) would then take water from Scottsdale's standpipe. EPCOR would charge those customers based on information received from Scottsdale and would separately pay Scottsdale for the treatment and wheeling services provided by Scottsdale.

This option would be the most cost-effective option for the residents of the RVFC. Little to no additional facilities would need to be built for this option, and it would be included as expenses as opposed to capital costs. EPCOR's cost for the use of Scottsdale's infrastructure and standpipe is estimated to be approximately \$100,000 as referenced in Table 1 of Staff's Engineering Report.

¹ See Response to Motions at 7

Option 2 – Use of Scottsdale’s system and new EPCOR Standpipe

This option relies on utilizing Scottsdale’s treatment and distribution system. However, the standpipe and main required to serve the RVFC area would be constructed and installed by EPCOR thus eliminating the need for facilities such as tanks and wells. EPCOR would reimburse Scottsdale for wheeling and treatment and, based on information received from water haulers, charge customers for water. A site for the standpipe has yet to be identified by EPCOR. The estimated cost for EPCOR to provide service under this option before accounting for the cost of water would be \$1 to \$1.5 million, with the range determined by the length of the water main.

Option 3 – Construction of a New Standpipe connected to Rio Verde Utilities, Inc.’s Existing System

This option involves connecting a newly constructed standpipe to Rio Verde Utilities’ distribution system, possibly avoiding a need for construction of a separate storage tank. However, building a new standpipe in the Rio Verde Utilities area would necessitate equipping an existing well with new arsenic removal facilities and replacing aged water main sections that are currently incapable of handling additional flows. As with prior options, EPCOR would bring new water to the Rio Verde Utilities system and replenish, gallon for gallon, any water pumped from this well. EPCOR has not yet identified a site for where this standpipe and well might be located. EPCOR estimates the cost for this approach to be over \$6 million before accounting for the cost of water.

Option 4 – Build Standalone Standpipe in the Rio Verde Foothills Area

This last approach would be the most expensive option for EPCOR to pursue because it involves building a standalone standpipe. EPCOR would drill a new well, add any necessary treatment, and construct a standpipe. Because these facilities would not be connected to a distribution system, EPCOR would need to also build a separate storage facility. EPCOR has not identified a site for where this standpipe and well might be located, and the estimated cost for EPCOR to provide service before accounting for the cost of water would be \$10 million.

OTHER RVFC WATER SERVICE CONSIDERATIONS

EPCOR advised that the estimated cost to provide traditional water distribution service and construct a water distribution system would exceed \$140 million and EPCOR has indicated that the Company is not considering or proposing this action. EPCOR is only seeking to make standpipe water service available to certain customers in the RVFC area who otherwise may not have access to water.

EPCOR is proposing a limited CC&N for standpipe water service to RVFC and believes it will have adequate resources to provide standpipe service to the RVFC for those who have constructed homes by January 1, 2024, given the current demands noted by information received from Scottsdale. Given the constraints with procuring water resources, EPCOR indicated that it

may not be able to proceed with an open-ended obligation without any geographic and temporal limitations.

The source of water for the standpipe water service will likely be a combination of groundwater and surface water through various wells that may be the subject of one or more agreements. EPCOR stresses in this application the proposed standpipe water service will not impact the water resources and availability for current and future customers within Rio Verde Utilities' CC&N area regardless of the water source. The purpose for the standpipe will be for residential water use only, and not for the purposes of irrigating golf courses, ornamental lakes, or other aesthetic water features.

FRANCHISE

Every applicant for a CC&N is required to submit to the Commission evidence showing that the applicant has received the required county and/or city franchise authorizing the use of public roads or lands to construct, install, operate, and maintain a water and/or wastewater system. EPCOR indicated that it would be seeking the required franchise once a service location was identified. Staff recommends that evidence of receipt of the required county/city franchise agreement be filed, as a compliance item in this docket, within 12 months of the Decision in this docket.

REQUESTS FOR SERVICE

Typically, a request for service is fundamental in determining whether a need for a CC&N exists. In this case, it is evident due to the nature of the docket and public participation therein that there are ample requests for the standpipe service being proposed by EPCOR and thus, this requirement is satisfied.

WATER SYSTEM DESCRIPTION AND ANALYSIS

Currently, there is no EPCOR water infrastructure serving the RVFC. Further, EPCOR estimates the current RVFC annual water use appears to be 150-acre feet or 48,877,000 gallons. Table 3 in Staff's Engineering Report, Exhibit 2, provides actual water use in the RVFC area from 2019-2021.

In response to a Staff data request regarding facilities required to serve the RVFC, EPCOR outlined the potential facilities required, and Staff tabulated potential facilities required and actions necessary to support each of those alternatives in Table 2 of Staff's Engineering Report.

Staff will typically project a system's customer growth using regression analysis on data submitted to the Commission in a Company's annual report; however, because a CC&N does not exist for the RVFC, Staff cannot project this information. Based on EPCOR's application, the Company proposes to limit standpipe use to only those residents within the area whose homes are constructed on or before January 1, 2024. EPCOR explained that homes built after the proposed

cutoff date would be free to pursue other options for the provision of hauled water, or to drill a well and provide service to themselves upon approval by any required city, county, or state entities. The cutoff date was proposed because EPCOR had expressed concern over procuring water resources outside of the projected 150-200 acre feet the RVFC will utilize. EPCOR felt that the January 1, 2024, cutoff date would ensure only residents affected by Scottsdale's termination of standpipe service on January 1, 2023, would have access to EPCOR's standpipe. In its Application, EPCOR indicated that it does not have an estimate of the number of residential customers that will actually utilize standpipe water service. Based on Staff's discussion with EPCOR and Scottsdale, Staff estimates Scottsdale standpipe is currently serving approximately 500-1,000 customers.

Due to the lack of information surrounding the infrastructure required to serve RVFC, construction costs, and water availability, Staff cannot determine the reasonableness of the projected costs or construction timeline or the reasonableness of the proposed January 1, 2024, cutoff date discussed in other sections of this report.

EPCOR indicates that siting and design of the necessary facilities will be undertaken upon ACC approval of a standpipe CC&N as EPCOR must have some certainty it has the authority to provide the service requested before it can invest substantial resources. EPCOR's preliminary evaluation has identified a preferred band of potential sites "outside or on the margins of EPCOR's existing Rio Verde Water CC&N service area that are near EPCOR's existing Rio Verde Water distribution system" but outside the current CC&N so as not to generate additional water hauling traffic within the RVFC.

Further in its Application, the Company states that the total construction costs of the proposed on-site and off-site water facilities will be at least \$6 million not including land acquisition. The Company projects total costs to be as high as \$12 million depending on build-out. The Company cannot provide a precise timeline because alternative solutions continue to be explored. In response to Staff data requests, the Company indicated that the timeframes are expected to be within the 24 to 36-month period noted in the application. The Company further provided an estimated timeline of 12 to 18 months for land acquisition, design, permitting, utilities and another 12 to 18 months for procurement and construction. Without knowing what facilities must be constructed, Staff does not have adequate information to make a determination as to the reasonableness of the project costs or construction timelines.

Staff requested the Company provide the cost of constructing a full distribution system that would provide traditional water service to the RVFC residents based on the rationale that a long-term solution is needed. In response to Staff data requests, the Company indicated the cost of constructing a water distribution system and providing traditional service could exceed \$140 million.

Water Availability

Customers of Rio Verde Utilities have expressed concern over potential utilization of Rio Verde Utilities' water due to low water supplies. EPCOR in its December 7, 2022, filing stated that any water used by RVFC will be replenished gallon for gallon by obtaining existing effluent Long-Term Storage Credits within the Active Management Area. Staff's Engineering Report, Exhibit 2, explains in detail how the replenishment would occur.

Engineering Recommendations

Based on the analysis available and included in the Engineering Report, Exhibit 2, Staff recommends approval of a CC&N for standpipe service, contingent on the submission of the information outlined below:

1. EPCOR file a complete description of the facilities to be constructed, including an engineering report with specifications in sufficient detail to describe the water system and the principal components of the water system (i.e., source, storage, etc.) and verification that the requirements of the Commission and ADEQ are met within 12 months of a Decision in this matter.
2. EPCOR file the estimated total construction cost of the proposed offsite and onsite facilities, including documentation to support the estimates, and an explanation of how the construction will be financed within 12 months of a Decision in this matter.
3. EPCOR file an Approval to Construct for the proposed facilities that will be installed within 18 months of the Decision in this matter.
4. EPCOR file a copy of a Physical Availability Determination, Analysis of Adequate Water Supply, or Analysis of Assured Water Supply issued by ADWR within 12 months of a Decision in this matter.

FINANCE OF FACILITIES

The proposed facilities will be funded through existing debt/equity financing because this is not the typical type of extension of facilities into new developments and is for standpipe service.

STANDPIPE RATES AND TARIFFS

Proposed Rates

EPCOR proposes that the rates to be charged for the RVFC standpipe be established at a flat volumetric rate of \$20.00 per 1,000 gallons. The Company further proposes that the RVFC Standpipe be consolidated with EPCOR's larger Sonoran Water District (or its successor district) at the conclusion of its next rate case, and that the rate be subject to true-up after the final costs are

known or consolidation occurs. The Company contends that its requested ordering paragraph is necessary to mitigate the financial impacts of being unable to fully recover its capital investment in the proposed standpipe in the event that many residents of the RVFC opt not to take service from EPCOR. Financial information normally required in approving a new CC&N was not provided to Staff. Therefore, Staff based its analysis on information available through the initial application and subsequent data requests.

Because this is a request for a CC&N for standpipe water service only, the Company provided support for the \$20.00 per 1,000 gallons rate assuming an original cost rate base of \$4 million, cost of land acquisition of \$1 million, and rate of return of 6.67 percent. Including all relevant expenses, the total annual revenue required is \$994,845, and with the estimated annual usage of 48,877,640 gallons, the result is \$20.35 per 1,000 gallons (see Schedule LAC-I in Staff's Finance and Regulatory Analysis "FRA" Report, Exhibit 3). This calculation is based on certain assumptions such as the ability to build on existing infrastructure. If EPCOR needs to build standalone infrastructure, the costs could be much higher.

Although Staff is unable to determine the reasonableness of the \$20.00 per 1,000 gallons rate at this time, Staff believes EPCOR's proposed true-up provision provides the Company and the RVFC the opportunity to resolve any potential under- or over-recovery of actual costs of service. Therefore, Staff is not opposed to the Commission authorizing the Company's proposed standpipe rate of \$20.00 per 1,000 gallons. Staff recommends that a cost-of-service analysis be conducted once the actual costs of installing and operating the standpipe become known and measurable and for true-up of over- or under-recovery of costs.

Consolidation

The issue of whether consolidation is appropriate is typically analyzed within the context of a rate case, where all relevant facts and evidence are presented, and Staff can arrive at a well-informed recommendation. Furthermore, Staff notes that EPCOR's proposal in this proceeding relates to the approval of a new and separate CC&N for a distinct customer class outside of the existing certificated service territories of the Sonoran Water District. Staff also notes that EPCOR is not proposing to extend the existing Sonoran Water District's CC&Ns to the area requested in this application. Because EPCOR is not requesting to consolidate the existing Sonoran Water District CC&Ns with the proposed standpipe CC&N in this docket, Staff does not believe it is appropriate to address potential consolidation at this time. In addition, the Customers of the Sonoran Water District could potentially be impacted by consolidation and are unaware of this request and may not be parties to this case. Thus, Staff does not recommend approval of EPCOR's request pre-authorizing that its proposed standpipe CC&N in this case be consolidated with the larger Sonoran Water District at the conclusion of the next general rate.

Proposed Tariffs

EPCOR initially provided its proposed standpipe tariff in its Application filed October 14, 2022. Pursuant to discussions with Staff, the Company provided a revised tariff showing revised

terms and conditions on March 3, 2023, to reflect the changes discussed in its supplemental response to a Staff data request. The nine provisions of the proposed revised tariff are detailed in Staff's FRA Report.

Staff recommends approval of the Standpipe tariff with the revised terms and conditions of service as presented by Staff in Exhibit 3.

CUSTOMER SERVICE

According to the Consumer Services database as of the date of March 7, 2023, there were approximately 370 opinions filed with the Commission; 205 in support of the application and 190 opposed to the application.

EPCOR's complaint data for all water and wastewater districts, for the last three years, revealed a total of nine complaints thus far in 2023; 68 complaints for 2022; 82 complaints for 2021; and 24 complaints for 2020. All but four of these complaints have been resolved and closed.

PUBLIC INTEREST

Although the Company was unable to provide cost estimates and final infrastructure and water source information, Staff recognizes that this is due to the unique circumstances of this case. Staff recognizes that this endeavor is in its initial stages and that the Company is going above and beyond to find solutions for a community facing a water crisis created by development that lacked any centralized water distribution system planning. Therefore, Staff finds the requested CC&N for standpipe service is in the public interest, and EPCOR is a fit and proper utility company to provide that service.

COMMISSIONER QUESTIONS

On February 2, 2023, Commissioner Myers filed a letter in the docket to the parties indicating his questions regarding the various positions of parties on matters of concern. The first three questions are addressed to EPCOR and Intervenors. The fourth question addressing all parties requested in part "...what are other actions the Commission could take, other than approving consolidation, that would provide EPCOR the certainty that it will recoup its investment related to providing standpipe water service to the Rio Verde Foothills Community?"

Staff notes that Arizona regulated utility companies are not guaranteed recovery of plant investment. Instead, a public utility is allowed the opportunity to earn a return on its investment. Staff does not believe that consolidation is appropriate in this case as regulatory treatment of the water facility should be deferred until a future rate case. If consolidation is not determined through a future rate case, then the standalone costs of the standpipe would be the responsibility of the ratepayer.

CONCLUSIONS

Staff makes the following conclusions:

1. EPCOR has a significant history of effectively operating several utilities in Arizona. Staff believes that EPCOR has the financial, technical, and managerial ability to provide the proposed standpipe service.
2. Adequate information does not currently exist for Staff to recommend a January 1, 2024, cutoff date, and therefore, Staff concludes that EPCOR should provide standpipe service to all customers in the CC&N area identified in Staff's Engineering Map, Exhibit 1, regardless of when their home was constructed.
3. Once EPCOR has identified a source of water supply and facilities and can show an inability to serve a specific set of potential RVFC standpipe customers based on that data, EPCOR may apply, in this docket, for any prescribed limitations at that time.
4. Although Staff is unable to determine the reasonableness of the proposed \$20.00 per 1,000 gallons rate at this time, Staff believes EPCOR's proposed true-up provision provides the Company and the RVFC the opportunity to resolve any potential under- or over-recovery of actual cost of service. Therefore, Staff is not opposed to the Commission authorizing the Company's proposed standpipe rate of \$20.00 per 1,000 gallons and recommends a cost-of-service analysis be conducted once actual costs of installing and operating the standpipe become known and measurable and for true-up of over- or under-recovery of costs.
5. Staff does not recommend consolidation of the RVFC standpipe service with the Sonoran Water District outside the context of a rate case.
6. Staff does not have adequate information to make a determination as the reasonableness of the project costs or construction timelines.
7. Costs identified are true estimates with little to no information beyond generic knowledge regarding water facility construction costs.

RECOMMENDATIONS

Although the information to make a conclusive determination on infrastructure, costs, etc., is not currently available, Staff recognizes the emergency nature and urgency of this application. Additionally, Staff is not aware of any other company or party that has proposed a solution to the ACC to provide water service to the RVFC. Staff therefore recommends that the CC&N be approved for standpipe service to the full CC&N area described in Staff's Engineering Map, Exhibit 1 with the following conditions:

1. EPCOR be required to charge the proposed rate of \$20.00 per \$1,000 gallons and file the revised terms and conditions of service as recommended in this Report.
2. EPCOR be required to provide the estimated revenue and expenses for the first five years, following approval of the application, no later than 18 months after the Decision in this matter.
3. EPCOR be required to provide the estimated value of the Company's utility plant in service for the first five years following approval of the application no later than 18 months after a Decision in this matter.
4. EPCOR conduct a cost-of-service analysis once actual costs of installing and operating the standpipe become known and measurable and for true-up of over- or under-recovery of costs.
5. EPCOR file evidence of receipt of the required county/city franchise agreement, as a compliance item in this docket, within 12 months of the Decision in this docket.
6. Staff recommends that consolidation of the standpipe CC&N with the Sonoran Water District be denied, and that the request be made within in the context of the next Sonoran Water District rate case.
7. EPCOR file a complete description of the facilities constructed, including an engineering report with specifications in sufficient detail to describe the water system and the principal components of the water system (i.e., source, storage, , etc.) and verification that the requirements of the Commission and the ADEQ are met within 12 months of a Decision in this matter.
8. EPCOR file the estimated total construction cost of the proposed off-site and on-site facilities, including documentation to support the estimates, and an explanation of how the construction will be financed within 12 months of a Decision in this matter.
9. EPCOR file an Approval to Construct for the proposed facilities that will be installed within 18 months of the Decision in this matter.
10. EPCOR file a copy of a Physical Availability Determination, Analysis of Adequate Water Supply, or Analysis of Assured Water Supply issued by ADWR within 12 months of a Decision in this matter.
11. Once information becomes available regarding a source of water supply and facilities for the RVFC, and actual figures of demand are known, EPCOR may file for reconsideration of any cut-off date they believe is justified in this docket.

12. Staff further recommends that EPCOR explore the possibility of providing traditional water distribution service in the future should the need be established, and facilities and water sources are available to support such an endeavor.
13. Staff further recommends that the Commission's Decision granting this CC&N to EPCOR be considered null and void, after due process, should EPCOR fail to meet Condition Nos. 2, 3, 5, 7, 8, 9, and 10 within the timeframes specified or any other condition listed above.

MEMORANDUM

TO: Vicki Wallace
Executive Consultant III
Utilities Division

FROM: Lori H. Miller
GIS Specialist
Utilities Division

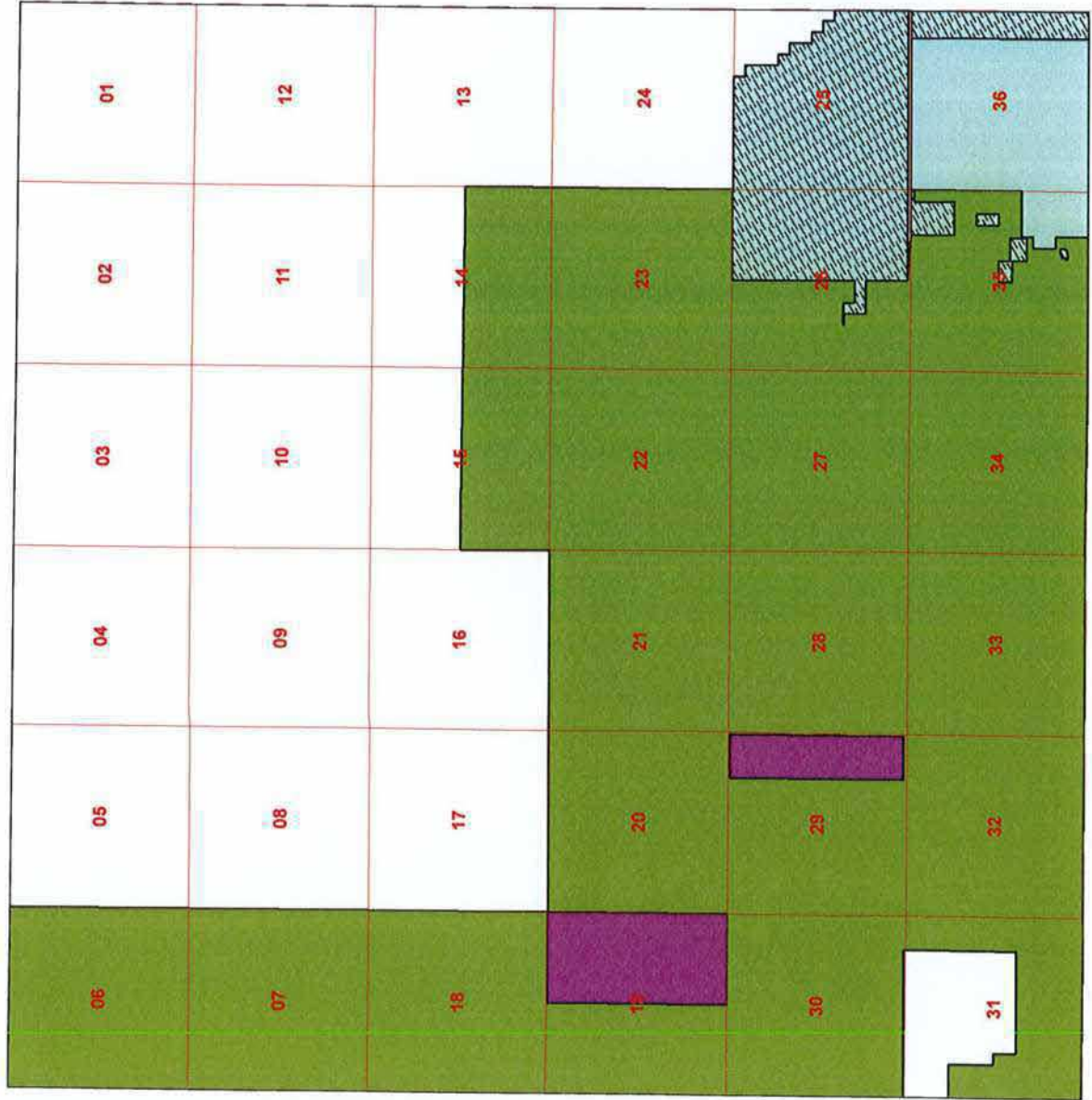
DATE: February 28, 2023

RE: IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., AN ARIZONA CORPORATION; (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO THE RIO VERDE FOOTHILLS COMMUNITY. (DOCKET NO. W-01303A-22-0264)

The area depicted in green on the attached map appears to be the entire Rio Verde Foothills area based on the documentation provided to Staff.

RANGE 6 East

TOWNSHIP 5 North



W-01303A

EPCOR Water Arizona, Inc.

W-03720A (1)

Water Utility of Northern Scottsdale, Inc.

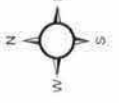


EPCOR Water Arizona, Inc.

Docket No. W-01303A-22-0264

Application for Establishment of a CC&N for

Standpipe Water Service



Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section/GIS Mapping
602-542-4251

MEMORANDUM

TO: Vicki Wallace
Executive Consultant III
Utilities Division

FROM: Abdulqahar Abdulrahim
Utilities Engineer
Utilities Division

DATE: March 10, 2023

RE: IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., AN ARIZONA CORPORATION: (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO THE RIO VERDE FOOTHILLS COMMUNITY. (DOCKET NO. W-01303A-22-0264)

INTRODUCTION

On October 13, 2022, EPCOR Water Arizona Inc. (“EPCOR” or “Company”) submitted an application to the Arizona Corporation Commission (“ACC” or “Commission”) for approval to establish a Certificate of Convenience and Necessity (“CC&N”) to provide standpipe water service only to the Rio Verde Foothills Community (“RVFC”) and approval of its proposed standpipe water Tariff.

EPCOR is a Class A water utility that provides public utility water and wastewater in portions of La Paz, Maricopa, Mohave, and Santa Cruz Counties. Currently, the Company operates 25 public water systems. The Company’s current water rates were approved in Decision Nos. 78439 and 78546.

In August of 2021, the Bureau of Reclamation declared the first Tier 1 shortage on the Colorado River System, effective for 2022. In response, the City of Scottsdale (“Scottsdale”) activated Stage One of Scottsdale’s Drought Management Plan in the same month, which states, “Scottsdale’s commercial and residential fill station shall be shut down or restricted at this stage. Any water hauling operations will cease unless the water hauling customer, whether residential or commercial, can prove indisputably that the hauled water is being supplied directly to a Scottsdale resident or business.” In October 2021, RVFC customers were notified that starting January 1, 2023, Scottsdale will no longer allow noncity residents to utilize the Scottsdale standpipe.

On August 26, 2022, in Docket No. WS-000A-22-0294 EPCOR indicated they are willing to provide standpipe services to RVFC.

EPCOR proposes the establishment of a certificated service territory to provide standpipe water service only to the RVFC. EPCOR states in its application that to provide standpipe services, it will potentially need to acquire land and water rights and install new water infrastructure, all of which still need to be done. The primary basis of Staff's analysis relies on EPCOR's proposed solutions submitted on December 7, 2022, the EPCOR Application, and responses to Data Requests ("DRs") from Staff and the Rio Verde Community Association ("RVCA").

PROPOSED SOLUTIONS

EPCOR docketed what they believe to be the most feasible solutions to provide water services to the RVFC on December 7, 2022. Staff concludes through Company acknowledgement that costs identified are true estimates based on generic knowledge regarding water facility construction costs. Staff analyzed the Company's proposed projects and outlined them in Table 1.

Table 1. EPCOR's Proposed Solutions¹

Project	Solution	EPCOR Estimated Cost
1	Use of Scottsdale's Infrastructure and Standpipe	\$1,000,000
2	Use of Scottsdale's Infrastructure and to be built EPCOR Standpipe	\$1,000,000- \$1,500,000
3	EPCOR standpipe to Rio Verde Utilities' existing system	\$6,000,000
4	Standalone standpipe in the Rio Verde Foothills area	\$10,000,000

Project 1

According to EPCOR, Project 1 is only feasible if Scottsdale agrees. This option involves utilizing Scottsdale's infrastructure and standpipe. EPCOR will deliver untreated water to one of Scottsdale's water treatment plants; Scottsdale will treat the water and wheel it through its system to its standpipe. EPCOR customers, through water haulers, would then receive water from Scottsdale. EPCOR would reimburse Scottsdale for wheeling and treatment and, based on information from Scottsdale, charge customers for water. This option would require minimal infrastructure additions.²

¹ This is only an estimate for the design and construction of the water station and related facilities needed to provide service.

² Based on responses to STF 2.1, projects 1 and 2 which utilize Scottsdale's existing infrastructure are no longer viable options.

Project 2

This option is only feasible if Scottsdale agrees to work with EPCOR. Like Project 1, this option relies on Scottsdale's treatment and distribution system; however, the standpipe and main required to serve the RVFC would be constructed and installed by EPCOR. This option eliminates the need for facilities such as tanks and wells. EPCOR would reimburse Scottsdale for wheeling and treatment and, based on information received from water haulers, charge customers for water. According to EPCOR, a site for the standpipe has yet to be selected.

Project 3

Project 3 does not rely on Scottsdale; instead, a newly constructed standpipe will be connected to Rio Verde Utilities' existing water system. This option will eliminate the need to build a storage tank or well; however, the existing well that will serve the standpipe will require arsenic removal in the form of a treatment plant. In addition, sections of old water mains currently in service cannot receive additional flows and will need to be replaced. Customers of Rio Verde Utilities have expressed concern about the lack of water availability in the area. In its application, EPCOR ensures that new water will be brought to the Rio Verde Utilities system and replenish, gallon for gallon, any water pumped from a Rio Verde Utilities well. Like Projects 1 and 2, this option depends on existing infrastructure to treat and wheel water to the standpipe serving the RVFC. Per EPCOR's application, a well and a location has yet to be identified.

Project 4

Project 4 involves constructing a standalone standpipe and the facilities required to serve that standpipe. This option would require drilling a new well, storage facility, and treatment plants if necessary. Per EPCOR's Application, locations for a well and a standpipe have yet to be identified. After the application was filed, Staff issued DRs to ascertain whether a location had been selected. At the time of the Staff Report, the Company had not yet selected a location. However, in response to Staff DR 3.6, the Company stated it had identified a preferred band of potential sites "outside or on the margins of EPCOR's existing Rio Verde Water CC&N service area that are near EPCOR's existing Rio Verde water distribution system."

Further in its Application, the Company states total construction costs of the proposed on-site and off-site water facilities are at least \$6,000,000³ not including land acquisition. The Company projects total costs to be as high as \$12 million, depending on build-out. The Company cannot provide a precise timeline because alternative solutions are being explored. In response to Staff DR 3.5, the Company indicated that the timeframes are expected to be within the 24-to-36-month period noted in the application. The Company further provided an estimated timeline of 12 to 18 months for land acquisition, design, permitting, utilities and another 12 to 18 months for procurement and construction. The proposed facilities will be funded through existing debt/equity financing. At this time, Staff does not have adequate information to make a determination as to the reasonableness of the project costs or construction timelines.

³ This estimated cost is only for the design and construction of the water station and related facilities.

DESCRIPTION OF THE WATER SYSTEM

Facilities required

In response to Staff's DR 3.6(b) the Company outlined the potential facilities required to serve the RVFC. Staff has tabulated the response below.

Table 2. Potential Facilities Required

Facilities	Description
New well versus an existing well	If an existing well can be brought into service, or a well that is out of service can be reactivated, it would eliminate the need to drill a new well
Booster pumps and storage	As necessary based on location of source water (e.g., well) to delivery point.
Electrical Service	Depends on site selected and infrastructure required. If able, the ability to leverage an existing well, system pressure and storage volumes would reduce the need for new electrical service.
Water treatment	The source water quality for the standpipe will determine whether any additional water treatment will be needed, such as arsenic removal and chlorination
Standpipe Site	A level site large enough to handle vehicle traffic exiting an existing road, where trucks can fill up with water, turn around safely, and safely re-enter traffic. The potential need for a storage tank, booster pumps, a well, and water quality treatment will also influence the size of the site. During operating hours, the site will require some fencing or a block wall to provide site security and access control. The site will almost certainly have automated entry and exit gates. To handle the traffic of heavily laden water trucks, the site will need to be graded, designed for proper drainage, and most likely paved.
Water delivery pipe(s)	Some type of water fill couplings and/or drop hoses will be needed to transfer water to trucks and trailers. On-site valving will be necessary to regulate the flow rate of water from the distribution system to the trucks.

Billing Kiosk	Some type of automated billing kiosk, such as a keypad with remote telemetry, will be required.
SCADA Telemetry	Sensors, flow meters, alarms and associated communications equipment will need to be integrated into a Supervisory Control and Data Acquisition System to allow EPCOR to remotely monitor the proper functioning of the standpipe

Water Use

Currently, there is no water infrastructure serving the RVFC. Further, EPCOR estimates the RVFC annual water use is 150-acre feet or 48,877,000 gallons. Table 3 below outlines EPCOR's understanding of water use in the RVFC area from 2019-2021.

Table 3. RVFC Water Use⁴

Year	Volume (Acre Feet)
2019	92.4
2020	116.6
2021	117
Average Annual Use	109

GROWTH

Typically, Staff projects a system's customer growth using regression analysis on data submitted to the Commission in a Company's annual report; however, because a CC&N does not exist for the RVFC, Staff cannot project customer growth. Instead, Staff must rely on the Company's application. Per EPCOR's application, the Company proposes to limit standpipe use to only those water haulers and individuals serving homes within the area described in the Company's application, constructed on or before January 1, 2024. Based on this statement, residents whose homes are built after January 1, 2024, will not be able to obtain water services from EPCOR's standpipe. The cutoff date was proposed because EPCOR has expressed concern over procuring water resources outside of the projected 150-200-acre feet the RVFC will utilize. The January 1, 2024, cutoff date will ensure only residents affected by Scottsdale's termination of standpipe service on January 1, 2023, will have access to EPCOR's standpipe. In its application, EPCOR states it does not have an estimate of the number of residential customers that will utilize standpipe water service. Based on Staff's discussion with EPCOR and Scottsdale, Staff estimates Scottsdale's standpipe is currently serving approximately 500-1,000 customers.

⁴ Figures based on EPCOR's response to RVCA 1.11 (a).

PUBLIC INTEREST CONSIDERATION

While Staff cannot verify the cost estimates and other figures provided by EPCOR in their application, Staff recognizes that the endeavor is in its initial stages and that the Company is going above and beyond to find a solution for a community facing a water crisis. Staff believes it is in the public interest for EPCOR to provide standpipe services to the RVFC, given its history of providing similar services to the Desert Hills/New River water station. Staff concludes EPCOR is technically and managerially fit to provide standpipe water service to the RVFC. Given that no other Company or party has proposed a solution to provide water services to the RVFC, Staff recommends that a CC&N for standpipe service be approved contingent on the submission of the information outlined in A through D.

- A. The Company submit a complete description of the facilities to be constructed, including an engineering report with specifications in sufficient detail to describe the water system and the principal components of the water system (e.g., source, storage, transmission lines, distribution lines, etc.) and verification that the requirements of the Commission and the Arizona Department of Environmental Quality are met within 12 months of Decision in this matter.
- B. The estimated total construction cost of the proposed offsite and onsite facilities, including documentation to support the estimates, and an explanation of how the construction will be financed within 12 months of a Decision in this matter.
- C. An Approval to Construct for the proposed facilities that will be installed within 18 months of a Decision in this matter
- D. A copy of a Physical Availability Determination, Analysis of Adequate Water Supply, or Analysis of Assured Water Supply issued by the Arizona Department of Water Resources for the proposed service area within 12 months of a Decision in this matter.

Staff believes it is reasonable and in the public interest for EPCOR to submit the information outlined in A through D given the lack of information surrounding infrastructure required to serve RVFC, construction costs, and water availability.

OTHER ISSUES

Domestic Water Improvement District ("DWID")

In anticipation of Scottsdale's standpipe restriction, some residents of the RVFC attempted to form a Domestic Water Improvement District ("DWID") to secure an alternative water supply. The Maricopa County Board of Supervisors voted against the formation of the DWID on August 31, 2022. As part of their Application, the DWID compiled detailed cost information for a complete standpipe water system to provide water service to the RVFC. Staff has presented the

information in Table 4 to help inform relevant parties of the potential costs associated with delivering standpipe water service to the RVFC.

Table 4⁵. Estimated Cost of a Complete Standpipe System

Bid Item	Qty	Unit	Unit Cost	Total Cost
Gravel Driveway	1	LS	\$20,000	\$20,000
Electrical	1	LS	50,000	50,000
Painting	1	LS	15,000	15,000
Grading & Drainage	1	LS	25,000	25,000
CMU Wall	548	LF	275	150,700
Fill Station	3	EA	115,000	345,000
Booster Station	1	LS	55,000	55,000
Flow Point System	1	LS	50,000	50,000
Taxes, Bonding, Permitting	1	LS	12%	85,290
35% Contingency				278,600
Sub Total				1,074,590
Land ⁶				500,000
Storage				
175K Tank	1	EA	525,000	525,000
35% Contingency				183,750
Storage Total				708,750
Complete Build Total				\$2,283,340

Table 4 includes cost information for infrastructure and land only. This cost estimate was generated by GHD, a professional engineering firm that designed Scottsdale's current fill station. As of December 21, 2022, the estimated costs presented in Table 4 are accurate. This estimate is for a water system containing three commercial fill stations, 500-600 gallons per minute pumps, and a 175,000-storage tank.

Cost

In response to RVCA 1.4 which inquires if EPCOR is opposed to a Tariffed fee analogous to a hook up fee that would be paid by persons seeking water service to fund the required infrastructure, EPCOR states that it is not proposing a hook up fee since the Company is not proposing to extend traditional water service. The Company has proposed a standpipe water rate

⁵ This conceptual estimate of probable construction cost is based on information provided by Rio Verde DWID board members and previous construction bids for similar work. GHD has no control over changes in market conditions, such as material and labor costs, that may impact the accuracy of this estimate.

⁶ Estimate based on 2.5-acre parcel of land.

of \$20 per 1,000-gallons, subject to true up. Therefore, the RVFC residents would be paying for infrastructure associated with standpipe service. EPCOR states that it does not have a position on whether a Tariffed fee in addition to the \$20 per 1,000-gallons is necessary.

Further, Staff requested the Company provide the cost of constructing a full distribution system that would provide traditional water service to the RVFC residents based on the rationale that a long-term solution is needed. In response to Staff DR 1.1, the Company indicated the cost of constructing a water distribution system and providing traditional service could exceed \$140 million.

Water Availability

Customers of Rio Verde Utilities have expressed concern over potential utilization of Rio Verde Utilities' water due to low water supplies. EPCOR in its December 7, 2022, filing stated that any water used by RVFC will be replenished gallon for gallon by obtaining existing effluent Long-Term Storage Credits ("LTSCs") within the Phoenix Active Management Area ("AMA"). RVFC-Standpipe will then recover the LTSCs within the area of hydrologic impact of the place of storage and provide those to the Sun City system who will in exchange provide an equivalent volume of Central Arizona Project ("CAP") Municipal and Industrial priority water to the RVFC Standpipe for delivery via anticipated place of use. According to EPCOR, this provides advantages to both the RVFC-Standpipe system as a long-term renewable water supply and allows the Sun City system to more directly use its CAP allocation by shifting a portion of its CAP allocation to recovery by RVFC-Standpipe within the area of hydrologic impact via the exchange instead of recovery using native groundwater. This preserves the local aquifer for the Sun City system. Permits and agreements are under draft and review by relative agencies.⁷

CONCLUSIONS

1. EPCOR is a Class A water utility that provides public utility water and wastewater in portions of La Paz, Maricopa, Mohave, and Santa Cruz Counties.
2. On August 26, 2022, in Docket No. WS-000A-22-0294 EPCOR indicated it is willing to provide standpipe services to RVFC.
3. EPCOR proposes the establishment of a certificated service territory to provide standpipe water service only to the RVFC.
4. The primary basis of Staff's analysis relies on EPCOR's proposed solutions submitted on December 7, 2022, the EPCOR Application, and responses to data requests from Staff and the Rio Verde Community Association.

⁷ Per response to STF 2.5.

5. Staff concludes through Company acknowledgement that costs identified are true estimates with little to no information beyond generic knowledge regarding water facility construction costs.
6. The proposed facilities will be funded through existing debt/equity financing.
7. At this time, Staff does not have adequate information to make a determination as to the reasonableness of the project costs or construction timelines.
8. Currently, there is no water infrastructure serving the RVFC.
9. Based on Staff's discussion with EPCOR and Scottsdale, Staff estimates Scottsdale's standpipe is currently serving approximately 500-1,000 customers.
10. Staff believes it is in the public interest for EPCOR to provide standpipe services to the RVFC, given its history of providing similar services to the Desert Hills/New River water station.
11. Staff concludes EPCOR is technically and managerially fit to provide standpipe water service to the RVFC.

RECOMMENDATIONS

1. Staff recommends that a CC&N for standpipe service be approved contingent on the submission of the information outlined in A through D.

MEMORANDUM

TO: Vicki Wallace
Executive Consultant
Utilities Division

FROM: Luis Carranza
Public Utilities Analyst
Utilities Division

DATE: March 8, 2023

RE: IN THE MATTER OF THE APPLICATION OF EPCOR WATER ARIZONA, INC., AN ARIZONA CORPORATION: (1) FOR APPROVAL OF ITS PROPOSED STANDPIPE WATER TARIFF; AND (2) ESTABLISHMENT OF A CERTIFICATE OF CONVENIENCE AND NECESSITY FOR STANDPIPE WATER SERVICE ONLY TO THE RIO VERDE FOOTHILLS COMMUNITY. DOCKET NO. W-01303A-22-0264

INTRODUCTION

On October 13, 2022, EPCOR Water Arizona, Inc. (“EPCOR” or “Company”) filed an application with the Arizona Corporation Commission (“ACC” or “Commission”) for approval of a limited Certificate of Convenience and Necessity (“CC&N”) and tariff to provide standpipe water service to the Rio Verde Foothills Community (“RVFC”).

WATER STANDPIPE TARIFF*Company Proposal*

EPCOR is requesting Commission approval of a new CC&N for the sole purpose of providing standpipe service to the residents of the RVFC. The Company proposes a flat volumetric rate of \$20.00 per 1,000 gallons (k-gal). EPCOR proposes to seek a true-up of any under/over recovery of costs of service, when the actual costs are known and the standpipe becomes operational, or when the standpipe is consolidated with a larger EPCOR water district. The Company contends that as a condition of providing standpipe service to the RVFC residents, that the Commission specify in “... an ordering paragraph that the standpipe be consolidated with EPCOR’s larger Sonoran Water District (or its successor district) at the conclusion of its next general rate case.”¹ The Company contends that its requested ordering paragraph is necessary to mitigate the financial impacts of being unable to fully recover its capital investment in the proposed standpipe, in the event many residents of the RVFC opt not to take service from EPCOR.

¹ Application, page 4, line 12.

The Company provided Staff with a revised tariff page showing revised terms and conditions on March 3, 2023, to reflect the changes discussed in its supplemental response to data request STF 2.7. The Company is proposing the following terms and conditions:

1. Establish an account through the application process with EPCOR and pay for water at the tariff rate. Each RVFC community resident who establishes an account for water standpipe service from EPCOR to receive hauled water will have their own account with EPCOR. Only RVFC residents who meet the terms and conditions of the tariff and any other established criteria will be able to establish an account.
2. Only take water under this tariff for use in a home in the RVFC area that is built as of January 1, 2024.
3. Secure delivery of water sold under this tariff from a Water Hauler² that is in compliance with all applicable Arizona laws / rules / standards for hauling potable water. Resident agrees to use only those Water Haulers with all necessary permits, approvals and authorizations for water hauling, if such permits, approvals or authorizations are required by Federal, State or local law or regulation. Water Haulers will not introduce any Hazardous Substance (meaning any substance, chemical or waste that is identified as hazardous, toxic, or dangerous under any federal, state, or local law or regulation) at the Water Hauling Facility property.
4. The water sold under this tariff will be delivered by a third-party Water Hauler that is not affiliated with EPCOR. EPCOR is not liable to any customer or third party for any Water Hauler's actions or inactions arising from the delivery or use of the water purchased from EPCOR. Resident agrees, as a term and condition of service, that EPCOR will not be responsible for the quality of the water (e.g. that the water is potable) once it leaves the Water Hauling Facility and that the Resident and /or the Water Hauler resident chooses to utilize are solely responsible for the safety and the quality of the water delivered.
5. Any resident with an account with EPCOR agrees that it will not, under any circumstances, authorize its Water Hauler to provide water for use outside of the RVFC, or else Resident's account will be subject to termination. EPCOR further reserves the right to terminate a customer's account if the amount of water received from the standpipe under the customer's account exceeds twice the median monthly residential usage in the RVFC for more than two months in any given calendar year.
6. In addition to the collection of this tariff rate, the Company will collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule 14-2-409(D)(5).

² A "Water Hauler" is either: (1) a vendor or provider that distributes potable water for resale to end users by tank truck or trailer; or (2) is an individual who is providing potable water for his or her own purposes (and is not providing or reselling the water to any other individual or entity) through use of personal equipment to deliver water to his or her property.

7. All accounts for the RVFC residents will be prepayment accounts, where such resident agrees to prepay to receive water standpipe service from the Water Hauling Facility. Prepay accounts will not be subject to deposits, late fees, disconnect fees, and reconnect fees. Accounts must be prepaid via an online customer portal. Residents may apply funds to their accounts as many times per month as they choose.
8. The Company may curtail, restrict or temporarily discontinue the provision of water at the Water Hauling Facility under the rules and regulations of the Arizona Corporation Commission, any applicable Company tariffs governing water service, or as otherwise permitted by law. Any such curtailment, restriction or temporary discontinuance of service will continue only so long as reasonably necessary. The Company will provide notification of the particular circumstances and the estimated length of time during which service will be curtailed, restricted, or temporarily discontinued, and will make reasonable efforts to resume the provision of water as soon as possible.
9. Access to the Water Hauling Facility is only within designated hours (between the hours of 7:00 a.m. and 6:00 p.m.) and only through those points designated specifically for access by Water Haulers. Attempts to gain access during undesignated hours, or attempting access through any points not specifically designated for access, is not permitted, and doing so may result in the cancellation of the customer and/or Water Hauler account of the person making the attempt.

Staff Analysis

Staff has reviewed the Company's application for a new standpipe CC&N and notes that the Company has not provided the financial information typically required in a new CC&N application. Arizona Administrative Code ("A.A.C.") R14-2-402 requires Applicants for a new CC&N to provide certain financial information to enable the Commission to evaluate the reasonableness of the proposed new tariff rates for service. The financial information required includes the estimated revenues and expenses for the first five years following approval of the application, and the estimated value of the utility plant in service for the first five years following approval of the application. Staff recognizes that the Company's inability to provide the financial information is due to the unique circumstances of this case. EPCOR's application seeks to address an emergency situation, and because of this, the application was filed before plans for providing service have been finalized. Thus, the financial information typically available in a CC&N application is simply not available here. These unique factors led the Commission to waive some of the information required to be provided under R14-2-402(B)(5) in Decision No. 78771.

In response to Staff Data Request STF 3.1, the Company provided support for its proposed \$20.00 per 1,000 gallons rate, by assuming an original cost rate base ("OCRB") of \$5,000,000 (including land acquisition cost of \$1,000,000), and a rate of return of 6.67 percent. EPCOR projected total annual revenue of \$994,845 and estimated annual usage of 48,877,650 gallons, which results in a standpipe surcharge of \$20.35 per 1,000 gallons (See Schedule LAC-1). Staff notes that the Company did not conduct an engineering analysis and its calculation is based on

certain assumptions, such as being able to build on existing infrastructure. EPCOR indicates that if it becomes necessary to build a stand-alone infrastructure, its projected standpipe costs could be much higher.

Staff is unable to determine the reasonableness of the Company's proposed standpipe rate of \$20.00 per 1,000 gallons at this time, because EPCOR has not provided Staff with the detailed financial information necessary to make such a determination. However, EPCOR's proposed true-up provision provides the Company and the RVFC an opportunity to resolve any potential under or over-recovery of actual costs of service. Based on these facts, Staff recommends Commission approval of the Company's proposed standpipe rate of \$20.00 per 1,000 gallons, subject to the true-up discussed herein. Staff recommends a CC&N contingent on submission and approval of the following information, no later than 18 months after the effective date of a Decision in this proceeding:

1. The applicant's estimated revenue and expenses for the first five years following approval of the application.
2. The estimated value of the applicant's utility plant in service for the first five years following approval of the application.

Staff recommends approval of the Company's proposed terms and conditions with the exception of the second condition. Staff recommends denial of the Company's condition limiting water use to only those homes constructed before January 1, 2024, as discussed further in this Staff Report.

Consolidation

EPCOR has requested an ordering paragraph pre-authorizing that its proposed standpipe CC&N be consolidated with the larger Sonoran Water District at the conclusion of the next general rate case. The issue of whether consolidation is appropriate is typically analyzed in the context of a rate case, where all the relevant facts and evidence are presented, including the potential bill impacts that consolidation would have. As noted, the Company's application lacks the financial information typically provided in CC&N applications. Therefore, Staff recommends that consolidation of the proposed standpipe CC&N be considered in the context of the next Sonoran Water District rate case, where Staff can analyze the requisite financial information.

Response to Commissioner Nick Myers' Letter

Commissioner Myers' Letter filed in the docket on February 2, 2023, asked all parties to address "what are the other actions the Commission could take, other than approving consolidation, that would provide EPCOR the certainty that it will recoup its investment related to providing standpipe water service to the RVFC?"

Staff notes that utility companies are never guaranteed that they will recoup their investments, they are only provided the opportunity to recover. Therefore, Staff is not aware of

any solution that would provide EPCOR certainty that it will recoup its investment related to providing standpipe water service to the RVFC.

CONCLUSIONS

1. EPCOR has significant history of effectively operating utilities in Arizona. Staff believes that EPCOR has the managerial and financial capacities to own and manage the proposed standpipe.
2. Staff cannot make a determination with respect to the consolidation of the Rio Verde Foothills standpipe CC&N with the Sonoran Water District outside the context of a rate case.
3. Due to the unique circumstances of this case, Staff lacks the financial information necessary to make a determination as to the reasonableness of the Company's proposed \$20.00 per 1,000 gallons rate. However, Staff believes the true-up provision will prevent under or over-recovery.

RECOMMENDATIONS

1. Staff recommends approval of the Company's standpipe CC&N application with the conditions that it provide Staff with the following, no later than 18 months after a Decision in this proceeding, for Staff review and approval:
 - a. The applicant's estimated revenue and expenses for the first five years following approval of the application.
 - b. The estimated value of the applicant's utility plant in service for the first five years following approval of the application.
2. Staff recommends approval of the Company's proposed standpipe rate of \$20.00 per 1,000 gallons, subject to annual true-up.
3. Staff recommends that consolidation of the proposed standpipe CC&N be considered in the context of a rate case.
4. Staff recommends that a cost-of-service analysis be conducted once actual costs of installing and operating the standpipe become known and measurable and for true-up of over or under-recovery of the cost of service.

Rio Verde Foothills Standpipe

Computation of Revenue Requirement and Water Rate

Line No.		2020 Water Rate Case ROE - 8.93%
		[A]
1	Plant in Service	\$4,000,000
2		
3	Land	1,000,000
4		
5	Required Operating Income	333,500
6		
7	Required Rate of Return	6.67%
8		
9	Operating Income Deficiency	333,500
10		
11	Gross Revenue Conversion Factor	1.35
12		
13	Increase in Gross Revenue Requirement	451,056
14		
15	Add: Cost of Water (\$593/AF-Yr 1)	88,950
16	Water Treatment Costs (\$1.8915 per kgal)	92,452
17	Wheeling Fee (\$0.45 per kgal)	21,995
18	Operating Expenses	135,391
19	Maintenance Expenses	5,000
20	Depreciation Expense	200,000
21		
22		
23	Total Revenue Required	<u>\$994,845</u>
24		
25	Estimated kgals per month based on 150 acre feet per year	48,877.65
26		
27	Rate per Kgal (Line 23 / Line 25)	\$20.35
28		